

State Notes

TOPICS OF LEGISLATIVE INTEREST

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Growth in the Michigan Transportation Fund and its Components

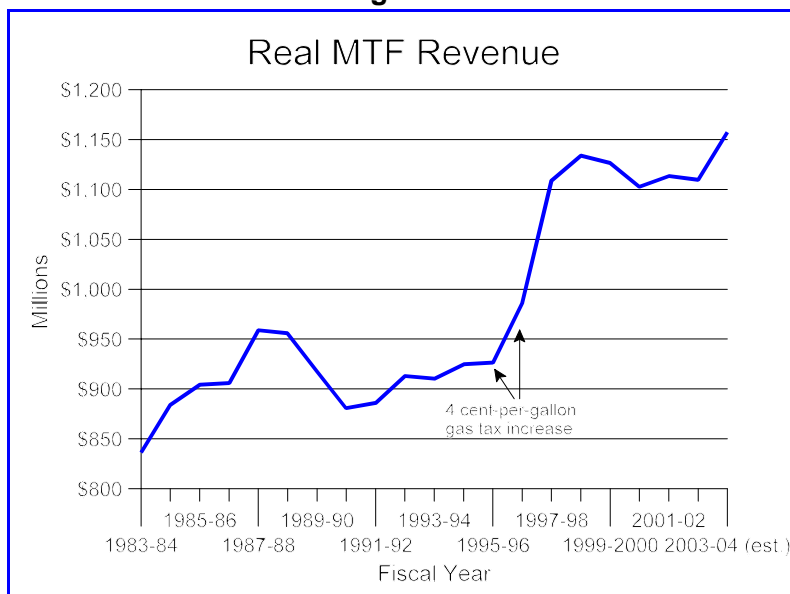
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Introduction

The Michigan Transportation Fund (MTF) is the recipient of all constitutionally restricted motor fuel taxes and vehicle registration taxes and therefore is the primary State-generated funding source for transportation activities in Michigan. The MTF is expected to receive over \$2.1 billion in fiscal year (FY) 2003-04 from motor fuel taxes (52.4%), vehicle registration taxes (44.6%), and a combination of vehicle title and transfer fees, various permit fees, and interest earnings (3.0%). Because the MTF supports funding for various transportation-related investments in Michigan, including the State's road and bridge program, local roads and bridges, and all modes of public transportation, growth in the MTF is an important issue.

While the MTF experienced inflation-adjusted revenue growth of 38.4% over the period FY 1983-84 through FY 2003-04, real MTF revenue has decreased in three of the last five years (Figure 1). Constrained growth in the MTF is further magnified in light of annual increases in vehicle miles traveled, increasing road and bridge construction costs, and rising operating costs for public transit agencies. This article provides an overview of the major components of the MTF and compares their growth over the past 20 years (FY 1983-84 through FY 2003-04) with overall revenue growth in the MTF.¹

Figure 1



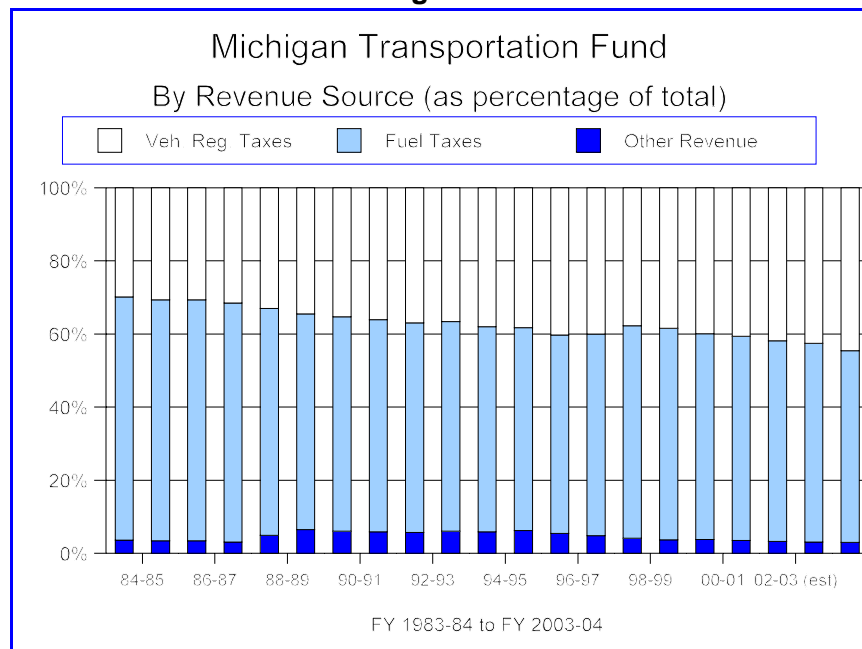
¹ Fiscal year 1983-84 was chosen as the base comparison year because that was the last year in which all motor fuel taxes, as a group, were increased (from 13 cents per gallon to 15 cents per gallon) and Michigan changed from a weight-based to a value-based vehicle registration tax. (Note: The gasoline tax was increased in 1997 to 19 cents per gallon.)



Motor Fuel Taxes

Michigan's Motor Fuel Tax Act provides for a 19-cent-per-gallon tax on gasoline and a 15-cent-per-gallon tax on diesel fuel and liquified petroleum. In FY 2003-04 motor fuel taxes are estimated at \$1.1 billion. The percentage share of total MTF revenue from State motor fuel taxes decreased from 66.5% in FY 1983-84 to 52.4% in FY 2003-04. Figure 2 shows MTF revenue by source, as a percentage of total revenue. Gasoline tax revenue comprises 86.1% of total motor fuel tax revenue deposited in the MTF.

Figure 2



Michigan's 19-cent-per-gallon gasoline tax is slightly below the national average of 20.4 cents per gallon; however, Michigan also assesses its 6% sales tax on gasoline. As a result, Michigan's effective tax on gasoline, including the sales tax, is 26.9 cents per gallon, above the national average of 21.4 cents per gallon. Among the Great Lakes states, the average gasoline tax is 21.7 cents per gallon without sales tax. When the sales tax is factored in for those states levying such a tax on gasoline (Illinois, Indiana, and Michigan), the average is 26 cents per gallon. Overall, Michigan's gasoline tax burden is on par with national and regional averages.

During the period FY 1983-84 to FY 2001-02, nominal gasoline tax revenue grew from \$527.7 million to \$963.5 million, an increase of 82.6%. Even after the 4-cent-per-gallon gasoline tax increase in 1997, real gas tax revenue (adjusted for inflation) grew only 1.4% over this same time period. Gasoline tax revenues have trailed behind inflation primarily due to advances in fuel efficiency coupled with the fact that Michigan's motor fuel taxes are fixed amounts per gallon. In addition to these factors, the growth of alternative fuel vehicles has contributed, albeit to a very small degree, to the slow growth in fuel tax collections.



Because Michigan's fuel taxes are fixed amounts per gallon, the growth in motor fuel tax receipts has been constrained by gains in fuel efficiency. Although vehicle miles traveled in Michigan increased 49.4% from 65.7 billion miles in 1984 to 98.2 billion miles in 2002, increased fuel efficiency of vehicles traveling in Michigan during the same period inhibited the increase in the number of gallons of motor fuel consumed. From FY 1983-84 to FY 2001-02, gasoline consumption in Michigan increased 32.7%, from 3.8 billion gallons taxed to 5.0 billion gallons taxed (Figure 3). Because fuel efficiency growth has outpaced the increase in vehicle miles traveled, gas consumption per vehicle has decreased. This has suppressed the growth of motor fuel tax revenue deposited in the MTF.

Figure 3

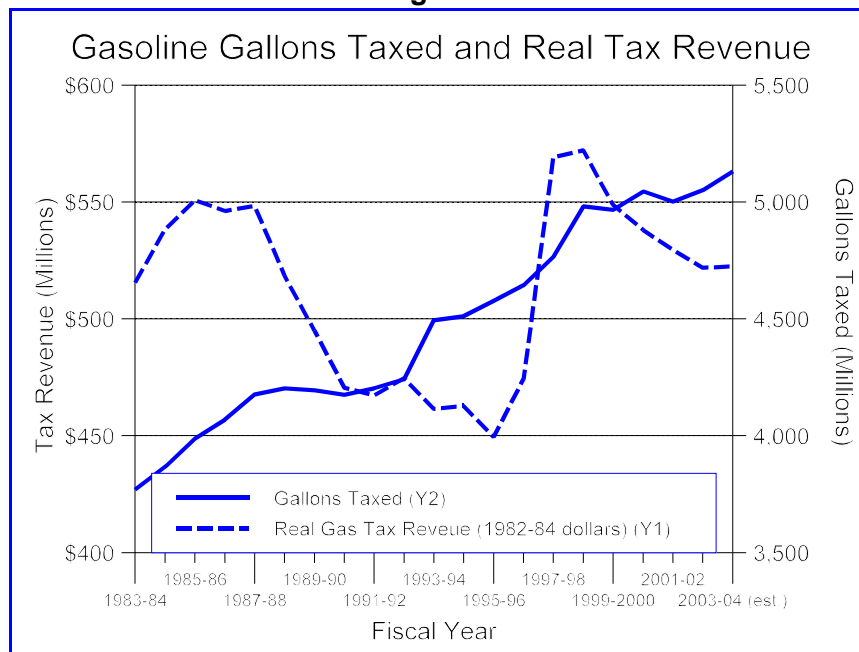


Figure 3 displays inflation-adjusted gas tax revenue growth. Between the time of the 1984 gas tax increase and the 1997 gas tax increase, real gas tax revenue declined 18% from its peak in FY 1986-87. Since the 1997 gas tax increase, inflation-adjusted revenue has dropped 8.7% from its peak in FY 1998-99. In terms of real dollars, gas tax revenue in FY 2003-04 is expected to be \$72.9 million above the level in FY 1995-96, the year immediately preceding the 1997 tax hike. In other words, inflation has not completely eroded the increase in gas tax receipts realized from the 1997 tax bump.

Vehicle Registration Taxes

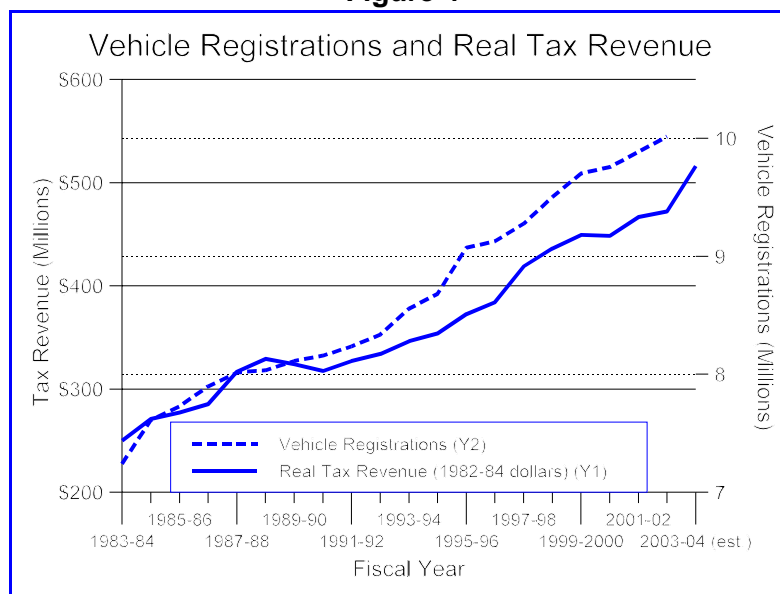
The State annually collects a tax on all vehicles registered in Michigan for use on public roads and highways. In FY 2003-04 this tax revenue is estimated to generate \$951.2 million, comprising 44.6% of the total MTF revenue, an increase from the FY 1983-84 level when registration taxes



made up 29.9% of total MTF revenue (Figure 2). Beginning with the 1984 model year, vehicle registration taxes changed from a weight-based to a value-based tax.

Over the 20-year period from FY 1983-84 to FY 2003-04, total vehicle registrations increased 36.5%. During the same period, however, inflation-adjusted vehicle registration tax revenue has increased 106.4%, from \$249.9 million to \$515.9 million (Figure 4). Initially, the majority of the growth in vehicle registration tax revenue was the result of changing from levying the tax on a vehicle's weight to levying the tax on a vehicle's value. As more and more vehicles became subject to the value-based tax and fewer vehicles subject to the weight-based tax, annual growth in tax receipts resulted from the rising costs of motor vehicles. Unlike motor fuel taxes, the vehicle registration tax has a built-in inflation factor in that it is an ad valorem tax, i.e., based on the value of the vehicle. In addition to the tax structure, the increase in the number of registrations over the past 20 years partially explains the growth in tax revenue. By indexing vehicle registration taxes to the value of motor vehicles, the tax revenue generated is not eroded by inflation. However, the annual growth in vehicle registration tax revenue is not enough to make up for the lost buying power associated with the stagnant fuel tax revenue collections.

Figure 4

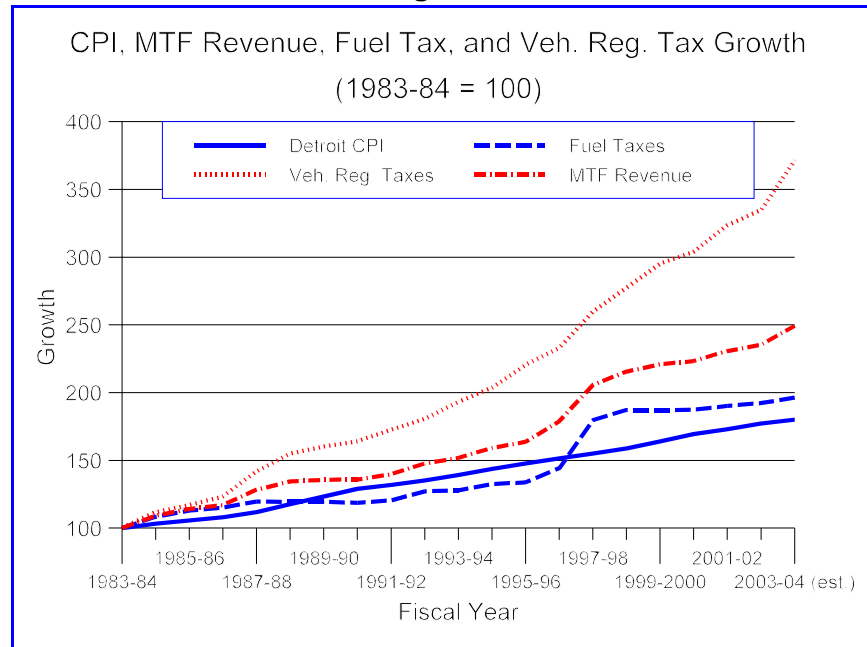


Conclusion

Figure 5 compares the growth in motor fuel tax revenue, vehicle registration tax revenue, MTF revenue, and the Detroit consumer price index over the past 20 years. This graph shows that growth in the MTF has been effectively driven by growth in vehicle registration taxes and not motor fuel taxes. While vehicle registration revenue growth has experienced steady year-to-year increases, fuel tax revenue growth has been relatively flat, with the exception of the 1997 gas tax increase. Because motor fuel tax revenue accounts for over half of the revenue deposited in the MTF, the slow growth in gallons taxed combined with the fact that the tax is a fixed amount per gallon has constrained MTF growth. As a result, the MTF is becoming increasingly more reliant on vehicle registration taxes than on motor fuel taxes as a revenue source.



Figure 5



Between FY 1983-84 and passage of the 1997 gasoline tax increase, growth in motor fuel tax revenue generally followed the growth in inflation. Since passage of the 4-cent-per-gallon tax increase, inflation has been rising faster than growth in fuel tax revenue receipts and is slowly eroding the initial bump in buying power realized immediately following the tax increase (Figure 5). Over the period FY 1998-99 to FY 2003-04, the average annual growth rate in fuel tax receipts is 1.5% compared with 2.5% for inflation. While a gasoline tax increase can produce short term revenue gains relative to inflation, it does little to provide long-term, ongoing growth in revenue receipts. Over time, inflation will erode the buying power of the additional tax revenues.

Sources: U.S. Department of Transportation, Federal Highway Administration, Census Bureau, and the Michigan Department of Transportation.